CHECKLIST FOR EVALUATION OF VALUE CHAIN FINANCE

This checklist is designed to help USG program officers determine if finance is a binding constraint to value chain competitiveness. Used in conjunction with the Model Scope of Work in *FS Series #5: Value Chain Finance*, the checklist can be used to determine if program resources should be dedicated to VCF interventions, as opposed to other value chain strengthening activities, as well as which interventions would be most appropriate in a given country context.

KEY QUESTIONS	YES	NO	Comments/ Responses
Financial Market			
1. What is the attitude of the finance ministry, banking supervisor and central bank toward VCF?			VCF may require the introduction of new financial relationships. It is important to determine early on if the regulatory environment is favorable or not.
2. Does the country have an efficient bankruptcy regime?			If not, this may be a barrier to the introduction of leasing. However, factoring may be an appropriate option. See below.
3. Does the country have a collateral registry?			The answer to this question will provide indications regarding which financial products may be most appropriate, if any, as well as the need for risk-mitigating product design features.
4. Does the country have a credit registry or credit bureau?			If the answer is no, reverse factoring may be more appropriate than traditional factoring. See below and VCF Primer.
5. Does the country have an adequate creditor protection regime?			
6. Do financial institutions lend to value chain members on a significant scale? If not, what are the major obstacles cited?			
7. Do financial institutions have plans to begin or increase targeting of value chains through: ▪ Development of new product lines or techniques ▪ Training of personnel ▪ Other			This sometimes opens possibilities for cooperation. Banks may seek to access this market sector directly or through use of non-traditional techniques.
Value Chain			
1. Do firms have the most appropriate equipment/technologies available to compete?			
2. Do firms have the financial resources available to invest in upgrading?			
3. Are infrastructure barriers to business competitiveness being addressed?			If not, will nonfinancial interventions have a greater positive effect on value chain competitiveness than VCF?
4. Does USAID want to target a specific population segment? If so, is the target population part of the value chain in significant numbers?			For example, are there a large number of microenterprises or smallholders, in the case of microenterprise or rural development programs?
5. Can you identify lead firms with which to work?			Lead firms can be used to channel financial services to smaller firms, reducing both the risks and costs of lending to these firms.
6. Do financial service providers understand the financial structure, cash flows, and risks of the market segment they are targeting (or to be targeted) within the value chain?			A lack of understanding of the market segment represents a significant barrier to the supply of appropriate products and may indicate a need for donor intervention.
7. Are value chain participants fully aware of the financial options available to them?			Is there a real or perceived gap between the supply of and demand for VCF?

KEY QUESTIONS	YES	NO	Comments/ Responses
Value Chain (continued)			
8. Are there opportunities for VCF to affect the power relationships among value chain actors in ways that promote both increased competitiveness and the equitable distribution of profits?			Relationships between actors up and down the chain are often unequal. Smallholders, for example, may have little bargaining power with larger processors. The structure of VCF products and delivery channels — even access to credit only — can create a more level playing field that benefits the chain overall.
9. Can firms, particularly at the producer level, effectively balance household and enterprises finances, and financing among and between enterprise activities?			This will help gauge the repayment capacity of value chain members, and provide indications regarding the appropriate design of any financial products.
10. Are financial products well-designed to meet the needs of clients (e.g., size, term, time available)?			
11. Are technologies available and used to bring financial services close to the client? If not, why not?			Donor interventions may be appropriate to develop or expand the use of cost-reducing, efficiency- enhancing delivery channels.
12. Are savings, credit, insurance, and transfer services readily available?			VCF is not just about credit. Other financial services may be just as critical to increasing competitiveness and development.
Asset-based lending, Factoring and POF			
1. Do local value chain members have significant sales to clients with established credit ratings?			Financiers seek claims on entities that are sound. In value chain relations, SMEs often sell to companies with acceptable credit.
2. Does the legal system recognize assets supporting asset-based finance as separate from the other assets of the company in case of bankruptcy?			In most countries without an Anglo-American legal system, this is a serious obstacle to asset-based lending. In those cases, factoring or POF are often better options.
3. Does the country have a collateral registry?			This is especially important for asset-based lending.
4. Does the country have a credit registry or credit bureau?			
WHRs			
1. Does the country have a system of warehouses with adequate regulation that is trusted by banks?			
2. Does the legal system permit finance via WHRs?			
3. Does the country have a law specifically authorizing finance via WHRs?			
Leasing			
1. Do value chain members regularly use capital equipment that is suitable for leasing?			
2. Are financial institutions prepared to consider the use of leasing?			
3. Does the country have an adequate leasing law?			
4. Does the legal system recognize leased assets as separate from the other assets of the borrower in case of bankruptcy?			

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